

## Message Text

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60

ACTION EUR-25

INFO OCT-01 ISO-00 TRSE-00 FRB-02 AID-20 CIAE-00 COME-00

EB-11 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 FEA-02 NEA-14 AF-10

NSC-07 SS-20 STR-08 CEA-02 PA-04 PRS-01 USIA-15 DRC-01

INT-08 L-03 H-03 /200 W

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R 301643Z MAY 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0803

C O N F I D E N T I A L LONDON 06724

DEPARTMENT ALSO PASS TREASURY & FRB

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: MARKET COMMENT ON ARAB FINANCIAL FLOWS AND EURO-  
CURRENCY DEVELOPMENTS

1. EMBASSY DOES NOT NORMALLY REPORT COMMENTS ON SPECIFIC  
TRANSACTIONS IN EUROCURRENCY MARKET. HOWEVER, IN PAST 2  
DAYS WE HAVE HEARD FOLLOWING INFORMATION THAT MIGHT BE OF  
INTEREST TO WASHINGTON AGENCIES.

2. HEAVY ARAB OIL FLOWS ARE BEING RECEIVED IN LONDON.  
THESE ARE BEING PLACED WITH A FEW MAJOR BANKS AT LESS  
THAN STANDARD LONDON INTERBANK RATES FOR MATURITIES IN  
QUESTION. FOR EXAMPLE, WE ARE TOLD THAT ARAB STATES (UN-  
IDENTIFIED) ARE PLACING LARGE AMOUNTS AT MARGINS FROM 1/8  
TO 3/16, TO AS MUCH AS 2 PERCENT POINTS BELOW LONDON INTER-  
BANK DOLLAR RATES. ONE MAJOR NEW YORK BANK CONFIRMED THAT  
IT HAD BID FOR FUNDS AT 2 PERCENT BELOW GOING INTERBANK  
RATE AND HAD NONETHELESS RECEIVED VERY LARGE ARAB DEPOSITS.  
AMOUNTS BEING RECEIVED ON A SINGLE DAY (NOT NECESSARILY  
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DURING THIS WEEK) REPORTEDLY RANGE FROM HALF BILLION DOL-

LARS TO AS MUCH AS 1.8 BILLION DOLLARS FOR INDIVIDUAL BANKS CONCERNED. A MAJOR LONDON CLEARING BANK REPORTS THAT IT IS RECEIVING ARAB DEPOSITS WITH UP TO 5 YEARS MATURITY IN LARGE AMOUNTS AT UNDER CURRENT MARKET RATES. SOME MAJOR U.S. BANKS ARE RECEIVING ARAB FUNDS WITH 2 TO FIVE YEARS MATURITY.

3. U.S. BANKERS CITE HEAVY OIL PAYMENTS TO ARABS SCHEDULED IN JANUARY, APRIL, JULY AND OCTOBER. SOME SENIOR OFFICERS AND BANK ECONOMISTS AT THESE BANKS' OFFICES IN LONDON AND ON THE CONTINENT CONSIDER THAT BY OCTOBER AT LATEST, THEY COULD BE IN POSITION OF TELLING ARABS THAT BANKS CAN NO LONGER ABSORB FUNDS BEING OFFERED.

4. HEAD OF FOREIGN EXCHANGE DEPARTMENT OF ONE OF LARGEST U.K. CLEARING BANKS REPORTS THAT THROUGHOUT FINANCIAL INSTITUTIONS IN THE CITY, AND IN PART LINKED TO FRANKLIN NATIONAL'S PROBLEMS, MANAGEMENT CONTROLS ARE BEING TIGHTENED OVER OPERATIONS OF FOREIGN EXCHANGE DEALERS. IN ADDITION, MUCH CLOSER ATTENTION IS BEING PAID TO QUALITY, LEGAL STATUS, AND CAPITAL STRUCTURE OF OTHER BANKS

INVOLVED IN FOREIGN EXCHANGE AND LENDING OPERATIONS. THIS IN PART DUE TO TONE OR OUTLOOK PERVADEING AT LAST WEEKEND'S ANNUAL FOREIGN EXCHANGE DEALERS CONFERENCE IN BRUSSELS, WHICH HAS BEEN DESCRIBED TO US IN TERMS RANGING FROM UNCERTAINTY TO PESSIMISM.

5. ONE CURRENT RUMOR CIRCULATING IN LONDON IS THAT BOTH FIRST NATIONAL BANK OF CHICAGO AND CONTINENTAL ILLINOIS BANK ARE IN DIFFICULTY -- NOT IN DANGER OF INSOLVENCY BUT RATHER FACING SEVERE LIQUIDITY SQUEEZE.

6. ABOVE INFORMATION COMES FROM PRIVATE SECTOR US AND UK BANKING OFFICERS WHO ARE NORMALLY HIGHLY RELIABLE SOURCES.

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## Message Attributes

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